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PP RUEHAG RUEHROV RUEHSR
DE RUEHRL #0168/01 0420612
ZNY CCCCC ZZH
P 110612Z FEB 09
FM AMEMBASSY BERLIN
TO RUEHC/SECSTATE WASHDC PRIORITY 3262
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY
RUCNFRG/FRG COLLECTIVE PRIORITY
RUEHRL/AMCONSUL DUSSELDORF PRIORITY 0187
RUEHFT/AMCONSUL FRANKFURT PRIORITY 7859
RUEHAG/AMCONSUL HAMBURG PRIORITY 0263
RUEHMH/AMCONSUL MUNICH PRIORITY 1988
RUEHC/DEPT OF LABOR WASHINGTON DC PRIORITY
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C O N F I D E N T I A L SECTION 01 OF 02 BERLIN 000168

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E.O. 12958: DECL: 02/09/2019
TAGS: [EFIN](#) [PREL](#) [PGOV](#) [GM](#)
SUBJECT: GERMAN ECONOMICS MINISTER THROWS IN TOWEL

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Classified By: CHARGE D'AFFAIRES JOHN KOENIG. REASONS: 1.4 (B) AND (D).

¶1. (C) SUMMARY. The sudden resignation of Economics Minister Michael Glos (CSU) on February 7 caught Chancellor Angela Merkel (CDU) and her party off guard at a time when addressing Germany's economic downturn is paramount. To minimize damage, the CSU quickly replaced Glos with its Secretary General Karl-Theodor zu Guttenberg, a decision which continues to draw criticism from other parties as well as from within the CDU due to thirty-seven-year-old, s minimal background in economic policy. The shuffle reveals strains between the CDU and CSU, and presents an opportunity for Merkel's political foes to portray her as lacking control as the country tries to deal with its worst economic crisis since World War II. END SUMMARY.

INITIAL CONFUSION OVER RESIGNATION

¶2. (C) Citing his age and intention to leave the cabinet after the September 2009 elections, the sixty-four-year-old Glos submitted his resignation as Minister for Economics and Technology on February 7. Chairman of the Christian Social Union (CSU), the Bavarian sister party of Chancellor Merkel's Christian Democratic Union (CDU), and Bavarian Minister President Horst Seehofer named Karl-Theodor zu Guttenberg, 37, as his successor. Zu Guttenberg had been CSU Secretary General for only three months following a major party reshuffle. Glos explained his departure would allow the CSU to campaign with a new minister in place, and help restore trust in the CSU following its poor showing in the Bavarian regional elections in September 2008. The timing of his departure -- during the financial and economic crises -- however, was awkward. In addition, Glos submitted his resignation to Seehofer instead of Merkel, which the media has portrayed as a snub to the Chancellor. (NOTE: Bavarian political reactions to be reported in ConGen Munich SEPTTEL.)

ENTER THE YOUNG TURK

¶3. (SBU) Under pressure to resolve an apparent power vacuum at a key ministry, Seehofer, who as CSU Party Chairman had the right to fill the slot, had to find a replacement for Glos quickly. At a February 9 press conference announcing the choice of zu Guttenberg, Seehofer said that he chose the rising CSU star partly in order to have a minister

representing the northern region of Bavaria. He lauded zu Guttenberg's international contacts and his presumed ability to promote German exports. Seehofer denied reports that before accepting the new post, zu Guttenberg had demanded the high-level position of CSU Bundestag Spokesman and CDU/CSU Caucus Chief in case the CDU/CSU lost the September elections. For his part, zu Guttenberg welcomed the opportunity to take on the economics portfolio. He described Germany's "social market economy" as the "guiding principle" of his economic thinking, and underscored the importance of free trade. Zu Guttenberg also said he would work to lower taxes for small- and medium-sized companies.

GLOS'S ROUGH RIDE

14. (C) Glos had always been an awkward fit for the Economics Ministry job, which he took on in November 2005. Glos did bring intimate knowledge of federal politics to the job, but was not an economist and had never shown strong interest in the Economics Ministry's portfolio. Chancellor Merkel instinctively turned to her Finance Minister Peer Steinbrueck (SPD) to coordinate the response to the financial crisis, sidelining Glos. Glos's inability to overcome CDU and SPD objectives and get additional tax cuts into the stimulus plan may have cost the CSU the recent Bavarian elections, to the dismay of Seehofer and others in the CSU.

15. (C) A devastating profile of Glos a few months ago in "Der Spiegel," whose main points Ministry contacts did not contradict, portrayed him as weak, out of touch with the bureaucracy, bored with his job, and looking forward to a nice sinecure for himself after retirement. In a farewell

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meeting with former Ambassador Timken in late November 2008, Glos appeared under great strain and confessed to tremendous frustration over his inability to influence Merkel on tax cuts as part of the stimulus package.

NO LOVE LOST

16. (C) SPD party stalwarts are giddy over perceived turmoil in the CSU and the perception that Merkel is not in control of developments. Chancellor-candidate Frank-Walter Steinmeier (SPD) said the CDU/CSU lacked "orientation" in their management of the economic crisis and called for "party order and discipline." A CDU staffer expressed irritation over Seehofer's handling of the shuffle, but she shed no tears over Glos's departure. On zu Guttenberg, FDP economics expert Rainer Bruederle commented to us that "as far as economics is concerned, it seems to be enough these days for the CSU to find someone who can read and write."

17. (C) The business community has mixed views. An IBM lobbyist told Econoff that she regarded Glos as the only "counterweight to Steinbrueck" on economic policymaking in the Germany government. A contact from the German industry association (BDI) conceded that Glos was "not the strongest Minister in the Cabinet," adding that BDI had often wished for someone in the position who was "more outspoken." On zu Guttenberg, he conceded the new Minister was well-versed in foreign policy and transatlantic issues, though young and inexperienced.

COMMENT

18. (C) Glos's resignation caught the CDU/CSU party hierarchy off-guard at a time when everyone in Berlin and Munich was concentrating on the Munich Security Conference. This high-profile resignation opens the door to criticism of Merkel's handling of the economic and financial crises, as well as Seehofer's leadership style. Zu Guttenberg's first

challenge will be to help resolve the debate between the CDU/CSU and SPD over the stimulus package. His appointment has been heavily criticized within the CDU, with some calling him a mere "place holder" until the September elections, raising questions about Merkel,s ability to steer her party effectively through a long &super8 election year. If not addressed, the SPD and the opposition FDP could emerge strengthened by the affair, which has come at a very inopportune time for Chancellor Merkel,s CDU and its sister party, the CSU. END COMMENT.

19. (U) This cable was coordinated with ConGens Frankfurt and Munich.
Koenig